

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON UMVOTI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Umvoti Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umvoti Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 36 to the financial statements, opening balances in respect of government grants and subsidies, electricity purchases, other receivables, revaluation reserve and accumulated surplus were restated as a result of errors that were discovered during the 2012 financial year in the financial statements of the Umvoti Municipality at, and for the year ended, 30 June 2012.

Material losses

9. As disclosed in note 37 to the financial statements, the municipality incurred material electricity distribution losses of R4,946 million (8,423 million kilowatt hours) during the year.

Material impairments

10. As disclosed in note 2 to the financial statements, the municipality provided for an impairment allowance of R3,080 million on consumer debtors as the recoverability of these amounts were considered doubtful.

Additional matter

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

12. The supplementary information set out on pages XX to XX do not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

14. The annual performance report was not presented for audit and consequently my findings below are limited to the procedures performed on the strategic planning and performance management documents.
15. The information was assessed to determine whether performance indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.
16. The material findings are as follows:

Usefulness of information

17. The *National Treasury Framework for managing programme performance information (FMPPI)* requires that performance targets be measurable and specific in clearly identifying the nature and required level of performance. A total of 100% of the targets relevant to all of the development objectives were not measurable and specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was not aware of the requirements of the *FMPPI*.

Compliance with laws and regulations

18. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Strategic planning and performance management

19. The performance report for the financial year under review was not prepared as required by section 46 of the Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), read with section 121(3)(c) of the MFMA.
20. The municipal council did not consult with the local community in the drafting and implementation of the municipality's IDP, through a forum that enhances community participation, as required by section 28 of the Local Government: Municipal Systems Act and regulation 15(1)(a)(i) of the Local Government: Municipal Planning and Performance Management Regulations of 24 August 2001 (MPPMR).
21. The municipality did not afford the local community at least 21 days to comment on the final draft of its integrated development plan before the plan was submitted to council for adoption, as required by regulation 15(3) of the MPPMR.
22. The municipality did not give effect to its integrated development plan or conduct its affairs in a manner which was consistent with its integrated development plan, as required by section 36 of the MSA and regulation 6 of the MPPMR.
23. The municipality did not
- set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan.
 - measure and review performance at least once per year, with regard to each of those development priorities and objectives and against the key performance indicators and targets set.
 - take steps to improve performance with regard to those development priorities and objectives where performance targets are not met as required by section 41 of the MSA.

Internal control

24. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the performance report and the findings on compliance with laws and regulations included in this report.

Leadership

25. Significant deficiencies noted in the communication and implementation of policies and procedures as well as monitoring and oversight, to enable and support understanding and execution of internal control objectives, processes and responsibilities with respect to performance management.

Financial and performance management

26. The accounting officer did not maintain an effective and efficient system of recording, reporting and monitoring of information on predetermined objectives.

OTHER REPORTS

Investigations completed

27. An investigation into supply chain and human resource management irregularities was completed during the year, and remedial action is currently in progress.

Auditor General

Pietermaritzburg

30 November 2012



**AUDITOR - GENERAL
SOUTH AFRICA**

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